

NEWS RELEASE

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MARCH 7, 2005

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DeNUCCI SAYS WORCESTER AREA DAY-CARE PROVIDER CHARGES STATE \$1.4M IN UNALLOWABLE EXPENSES

State Auditor Joe DeNucci reported today that Pakachoag Acres Day Care Center, Inc., a nonprofit state-funded Worcester area vendor, charged the Commonwealth for more than \$1.4 million in unallowable expenses that included several highly questionable related-party transactions involving members of the same family.

DeNucci's report stated that these expenses included lease transactions with a subsidiary owned by the agency's executive director, and excessive salary payments to the executive director and her husband, who serves as Pakachoag's administrator.

According to DeNucci's audit, Pakachoag made unallowable lease payments totaling more than \$343,400 during a seven-year period to rent space at an Auburn location that is owned by the executive director and her husband. In another instance, Pakachoag charged a for-profit related party, Kincare, \$86,098 less than the amount required by its lease agreement, resulting in the use of more state funds than necessary to fund the project. (Pakachoag and Kincare are both Grafton-based and are owned by the executive director and her husband.) Also, the audit disclosed that the executive director's son, who works as a manager for the provider, lived with his wife and child at the Auburn location but did not pay rent or reimburse the provider for any expenses associated with the property.

DeNucci's report also found that Pakachoag charged the state \$597,604 in non-program-related expenses for operational costs for a Grafton property that it leased to Kincare.

In addition, DeNucci's audit determined that Pakachoag paid the executive director and her husband inflated salaries, exceeding the amounts paid by similar organizations by \$284,216. Because these state-funded salaries are more than Pakachoag is financially able to pay, the agency is deferring \$480,000 of this compensation to be paid at a future date, a liability that could jeopardize the vendor's ability to continue to operate.

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DeNucci's audit also questioned the validity of the salaries paid to the executive director and her husband, since they were paid to serve as full-time employees of Pakachoag during the same period that Kincare's records indicated they worked full-time for that organization.

The audit also found that Pakachoag lacked adequate controls over the use of corporate vehicles and that the state was charged for more than \$85,000 in unallowable vehicle expenses during the audit period. Other problems cited in DeNucci's audit included a lack of board oversight, inadequate internal controls, and inaccurate and missing records.

DeNucci recommended that the Office of Child Care Services seek to recover \$1 million in questionable and unallowable related-party transactions for which Pakachoag billed the state. In addition, DeNucci recommended that OCCS attempt to recover the questionable salary expenses.

"My report raises serious questions concerning Pakachoag's use of almost \$12 million in direct and indirect state payments it received over an eight-year period," said DeNucci. "Pakachoag, working with its state funding agencies, should correct these deficiencies immediately."